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ABSTRACT

Part of a series of classroom aids designed for real estate instructors, this instructional packet was developed to help real estate students understand the principles and practices of managing rental property. First, an evaluation form for the packet is presented. Next, a summary is provided for the instructor of some basic principles of property management based on a 1982 survey of Texas Apartment Association representatives. This summary, which is keyed to accompanying overhead masters, covers: (1) the role and responsibilities of property managers; (2) the most common errors of inexperienced property managers; (3) determining rental values; (4) frequency of rental reviews; (5) best ways to advertise, qualify a tenant, and handle delinquent rents; (6) non-eviction removal of tenants; (7) dealing with tenants who violate the lease; (8) frequency, causes, and avoidance of litigation; (9) tenants', managers', and unreasonable complaints; (10) problem tenants; (11) maintenance and repair; (12) types of insurance coverage; and (13) advice for new property managers. Finally, the 21 overhead masters are presented. (AYC)

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TEACHERS INSTRUCTIONAL PACKET
TIP No. 3, Fall 1984

PRINCIPLES AND PRACTICES OF MANAGING RENTAL HOUSING

Texas Real Estate Research Center
College of Agriculture
Texas A&M University
College Station, Texas 77843-2115

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TIPS on the TIP

This Teacher Instructional Packet (TIP) is designed to provide the real estate instructor with classroom aids. Packets have been reviewed carefully, but there is always room for improvement. Suggestions to improve the usefulness of the TIP are welcomed.

Introduction to the TIP

TIP-3 has been developed to help students understand the principles and practices of managing rental housing. This material is provided as a **supplement** to existing course content. It is not a "pat" presentation. Instructors may use as much or as little as needed.

NOTE: Copies of the TRERC Technical Report, "Principles and Practices of Managing Rental Housing," have been provided to Texas real estate instructors. Additional copies are available for $1 each ($2 for out-of-state orders). Ask for publication number 412. Instructors have permission to reproduce this report in full or in part providing no changes are made in the content.

INSTRUCTORS EVALUATION

In order for the Texas Real Estate Research Center to be able to better assess the effectiveness of this packet, your input is requested. Please complete this form and return it to the address provided.

CONCEPT

1. What overall rating would you give this concept?

useless 1 2 3 4 5 6 7 8 9 10 invaluable

RATING THE ELEMENTS

2. How do you rate the elements of this TIP?

Content:

too general 1 2 3 4 5 6 7 8 9 10 too technical

Amount of material:

too little 1 2 3 4 5 6 7 8 9 10 too much

Format:

too simple 1 2 3 4 5 6 7 8 9 10 too complex

STRENGTHS AND WEAKNESSES

3. What were the strengths of the package? _____

_____

_____

_____

4. What were the weaknesses of the package? _____

_____

_____

SUGGESTIONS

5. What specific changes would you like to see in future TIPs?

_____

_____

6. What additional topics would you suggest for the TIP series?

a. _____ c. _____

b. _____ d. _____

EXPECTED USE

7. Do you expect using this packet in the next three months?

_____ yes _____ no

8. If you answered "yes" to question 7, to what classes will this material be presented?

_____

_____

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PRINCIPLES AND PRACTICES OF MANAGING RENTAL HOUSING

Instructor Summary

During the past decade, residential rental real estate has become an increasingly popular investment medium. New landlords soon discover that good management of property is critical to the success of the investment.

This TIP discusses some basic principles of management based on the survey results of Texas Apartment Association representatives of each of the 25 local chapters. The survey was completed in the spring of 1982. The major issues raised in this TIP will help resolve many property management questions before they become problems.

The role of the property manager is sometimes difficult because their responsibilities are divided four ways: themselves, other staff, tenants and the owner. In addition to being responsible to several different parties, the manager has several different functions or activities that must be performed. These functions are: marketing, leasing, tenant relations, personnel management, physical care of the property, insurance coverage, record keeping, and asset management.

Visual #1
Persons To Whom Responsible

Visual #2
Functions of Property Managers

In the preceding eight functions, six were identified as areas in which major types of errors are likely to be made by an inexperienced manager.

The following questions and responses represent the survey summary of the Texas Apartment Association respondents. The survey responses were tabulated using a weighted index to indicate the relative proportion of the total responses that were associated with each question.

"What are the three most common errors of an inexperienced property manager?" The three most common type problems listed included: relationship with the tenant (23.4 percent), management techniques (20.6 percent), and leasing techniques (15.9 percent).

Visual #3
Most Common Errors of Inexperienced Property Managers

"What are the three best ways to determine rent rates?" The vast majority (85 percent) indicated a market survey of comparable units.

Visual #4
Determining Rental Values

"How frequently should a manager review the rent schedule?" More than 85 percent recommended a review every six months or less while only 14.8 percent said the review period should be 12 months or longer.

Visual #5
Frequency of Rental Reviews

"What are the three best ways to advertise an apartment for rent?" This question received the following responses: newspaper advertising (38.8 percent), "word-of-mouth" referrals (25.4 percent) and sign in front of property" (10.4 percent).

Visual #6
Best Ways to Advertise

"What are the three best ways to qualify a tenant?" The top three responses were: the income level (20.1 percent), employment record (18.8 percent), and credit references (17.4 percent).

Visual #7
Best Ways to Qualify Tenant

"What are the three best ways to handle delinquent rents of more than two weeks?" Two major recommendations were received on this question which were: start an eviction procedure (44.1 percent) and contact the tenant for an explanation (32.6 percent).

Visual #8
Handling Delinquent Rents

"Besides eviction, what is the best way to remove a tenant?" Over 52 percent indicated that the manager should talk to the tenants while 26.3 percent recommended follow the terms of the lease very closely.

Visual #9
Non-eviction removal of Tenant

"How should you treat tenants who have pets or other property in violation of the lease?" Over 45 percent indicated that the eviction process should be initiated, 26.3 percent favored sending a letter stating the violation and 19.3 percent recommended a visit to the tenant.

Visual #10
Treating Tenants Who Violate Lease

"What percent of the leases written each year result in the litigation process being started?" Almost 18 percent indicated that the rate was less than 1 percent while none reported a rate of over 5 percent.

Visual #11
Frequency of Litigation

The major causes of lawsuits initiated be tenants are totally different from those initiated by management. More than 70 percent of the lawsuits initiated by management are related to delinquent or nonpayment of rents while 14 percent of the suits relate to destruction of property and 10.6 percent results from tenants breaking the lease.

Visual #12
Causes of Litigation--Management

More than 62 percent of the lawsuits initiated by tenants were concerned with security deposit refunds while 32.1 percent had to do with maintenance and repair problems and 5.4 percent involved charges of discrimination.

Visual #13
Causes of Litigation--Tenants

Professional managers suggested two primary ways to avoid litigation which included: fully explain the terms of the lease to the tenant (75 percent) and use good judgment and maintain a good relationship with tenants (13.8 percent).

Visual #14
Avoiding Litigation

When the survey respondents were asked **"What are the three most frequent sources of tenant complaints against property managers?"**, the top three replies were: general maintenance and upkeep (27.8 percent), security deposit refund (19.1 percent), and specific repair requests were not made quickly (14.8 percent).

Visual #15
Tenants' Complaints

The same question asked managers about complaints that they have against tenants illicited three major items which were: late rent payments (32.3 percent), inconsiderate tenants (22.6 percent), and violate lease terms (16.9 percent).

Visual #16
Managers' Complaints

When respondents were asked **"What are the three best ways to handle "unreasonable" tenant complaints?"**, 62.5 percent indicated that the manager should first talk with the resident and explain the rules and policies, while 20.5 percent suggested to use a comprehensive and unambiguous lease.

Visual #17
Unreasonable Complaints

When asked **"What are the three best ways to handle noisy, reckless, destructive, or careless tenants?"**, 36 percent replied to send a letter to the tenant, 28.2 percent recommended a personal visit and 21.8 percent alluded to the possibility of an eviction.

Visual #18
Problem Tenants

When the respondents were asked **"What are the best ways to get the maintenance and repair work done?"**, 63.1 percent indicated that having a maintenance man on-site was the best option. As expected, the size of the operating environment was an important factor in determining the best option.

Visual #19
Maintenance and Repairs

Suitable and economical insurance protection is needed. The five major types of insurance coverage include:

Visual #20
Types of Insurance Coverage

(1) Basic Fire Insurance
(2) Extended Coverage
(3) Liability Insurance
(4) Workmen's Compensation
(5) Inland Marine

A good record system provides a means of protecting the owner's current interest and evaluating future projects; it is essential for an effective management system.

A successful project requires that a certain amount of asset management or investment administration be done. The tax advantage of a property diminishes over-time and eventually can have a detrimental impact on the owner's rate of return.

Professional managers offered individuals entering the property management field the following advice:

Visual #21
Advice for New Property Managers

- o A Comprehensive Lease is Essential
- o Qualify Tenants for Compatibility as well as Financial Capacity
- o Tenant Relations Require Communication
- o Join the Local Apartment Association
- o Be Familiar with Rental Laws
- o Establish a Maintenance Program

PERSONS TO WHOM RESPONSIBLE

- Themselves
- Other staff
- Tenants
- Owners

FUNCTIONS OF PROPERTY MANAGERS

- Marketing
- Leasing
- Tenant relations
- Personnel management
- Physical care of property
- Insurance coverage
- Record keeping
- Asset management

MOST COMMON ERRORS

- Tenant relations (23.4%)
- Management techniques (20.6%)
- Leasing (15.9%)
- Legal (15%)
- Marketing (11.2%)
- Maintenance and repairs (4.7%)
- Record keeping (2.8%)
- Others (6.4%)

DETERMINING RENTAL RATES

- Market survey of comparable units (85%)
- Income needed or level of expenses (8.8%)
- Based on occupancy rate (3.8%)
- Other (2.4%)

FREQUENCY OF RENTAL REVIEWS

- Every 12 months or more (14.8%)
- Every 6 months (40.7%)
- Every 3 months (11.1%)
- Every 2 months (7.5%)
- Every month (3.7%)
- Continually (22.2%)

BEST WAYS TO ADVERTISE

- Newspaper (38.8%)
- Word-of-mouth (25.4%)
- Yellow Pages (11.2%)
- Sign on property (10.4%)
- Radio (5.2%)
- Institutional housing programs (4.5%)
- Billboards (2.2%)
- Others (2.3%)

BEST WAYS TO QUALIFY TENANT

- Income level (20.1%)
- Employment record (18.8%)
- Credit references (17.4%)
- Previous landlords (15.3%)
- Rental application form (10.4%)
- Compatible tenants (5.6%)
- Personal interview (3.5%)
- Personal references (2.8%)
- Previous employer (2.1%)
- Other (4%)

HANDLING DELINQUENT RENTS

- Start eviction process (44.2%)
- Personally contact tenant (32.6%)
- Contact tenant by phone or letter (9.3%)
- Give break first time, evict for repeat (7%)
- Impose late charge penalty payment (3.5%)
- Others (3.5%)

NON-EVICTION REMOVAL OF TENANT

- Suggest happiness lies elsewhere (52.6%)
- Follow lease terms closely (26.3%)
- Give 30 days notice if not month-to-month (10.5%)
- Threaten to evict (5.3%)
- Other (5.3%)

TREATING TENANTS WHO VIOLATE LEASE

- Initiate eviction process (45.6%)
- Send letter or notice to vacate (26.3%)
- Personal visit (19.3%)
- Telephone call (8.8%)

FREQUENCY OF LITIGATION

- Less than 1 percent (17.6%)
- 1 percent to 2.5% (41.2%)
- 2.5 percent to 3.5 percent (17.6%)
- 3.5 percent to 5 percent (23.5%)
- More than 5 percent (none)

CAUSES OF LITIGATION—MANAGEMENT

- Rent payment (70.6%)
- Destruction of property (14.1%)
- Breaking lease (10.6%)
- Noise and disturbances (4.7%)

CAUSES OF LITIGATION—TENANTS

- Security deposit refund (62.5%)
- Maintenance and repairs (32.1%)
- Discrimination (5.4%)

AVOIDING LITIGATION

- Explain lease to tenants (75.4%)
- Use sound judgment, good relationships (13.8%)
- Explain tenant's inconvenience in litigation (4.6%)
- Have resident relation council (3.1%)
- Negotiate (3.1%)

TENANTS' COMPLAINTS

- General maintenance and upkeep (27.8%)
- Security deposit refund (19.1%)
- Repairs not made quickly (14.8%)
- Noise and personality conflicts (13.9%)
- Communication with management (13%)
- Rent increases (5.2%)
- Inadequate pest control (2.6%)
- Others (3.6%)

MANAGERS' COMPLAINTS

- Late rent payment (32.3%)
- Tenant noise, litter, cooperation (22.6%)
- Violation of lease terms (8.1%)
- Non-payment of rent, hot checks (16.9%)
- Destruction, improper care of property (8.1%)
- Ignoring manager's office hours (5.6%)
- Unsupervised children (5.6%)
- Lack of communication with manager (0.8%)

HANDLING UNREASONABLE COMPLAINTS

- Talk to resident (62.5%)
- Unambiguous lease (20.5%)
- Review lease with tenants before renting (10.2%)
- Resident relations program (2.3%)
- Suggest they move if unhappy (2.3%)
- Contact an attorney (2.3%)

HANDLING PROBLEM TENANTS

- Letter stating problem (36.3%)
- Personal visit to review lease (28.2%)
- Allude to possible eviction (21.8%)
- Telephone call (10.5%)
- Others (3.2%)

MAINTENANCE AND REPAIR

- Maintenance man on site (63.1%)
- Maintenance contract for units (26.2%)
- Depends on size of operation (10.7%)

TYPES OF INSURANCE COVERAGE

- Basic fire insurance
- Extended coverage
- Liability
- Workmen's Compensation
- Inland marine

ADVICE TO NEW PROPERTY MANAGERS

- Have effective, comprehensive lease (28.8%)
- Qualify tenants well (17.7%)
- Tenant relations require communication (9.9%)
- Join local apartment association (7.2%)
- Be familiar with rental laws (5.4%)
- Establish maintenance program (5.4%)

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